

# High temporary employment, wage trends and inequality

Joint Conference Banco de España and IMF

# High temporality is good for two reasons and bad for everything else

## Negative side effects

1

It helps companies to survive



Adjustment mainly through dismissals

2

It helps job creation



High job turnover

↓ Uncertainty

↑ Productivity

## In the long run, high temporality is bad for...

### Temporary workers:

Suffer more work accidents

Accumulate less social benefits

Earn less money for the same work

Promotes inequality

Social Cohesion

Efficiency

Sustainability of Public Finances

↓ Potential growth

Promotes low VA activities

Small business

↓ Productivity

Harms the sustainability of the Social Security pension system

Rises the expenditure of unemployment protection

**In the long run, the costs of high temporality outweigh their benefits**

## Why the measures taken in the past against high temporality have not worked?

### As a consequence of high unemployment

No Government has ever dared to touch the core of high flexibility in temporary contracts

2

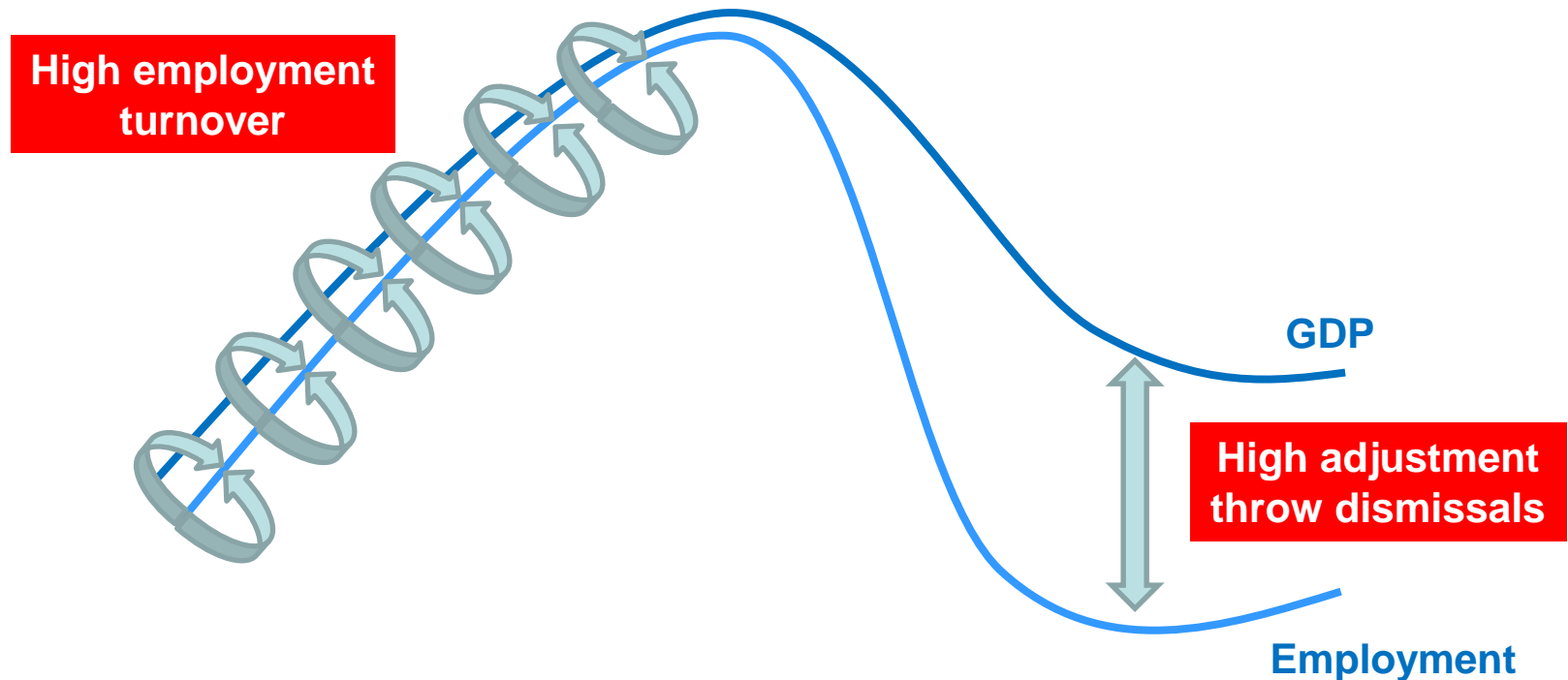
It helps job creation



High job turnover

## What does a solution for high temporality needs to be successful?

A great part of the solution is outside the scope of the labour regulation



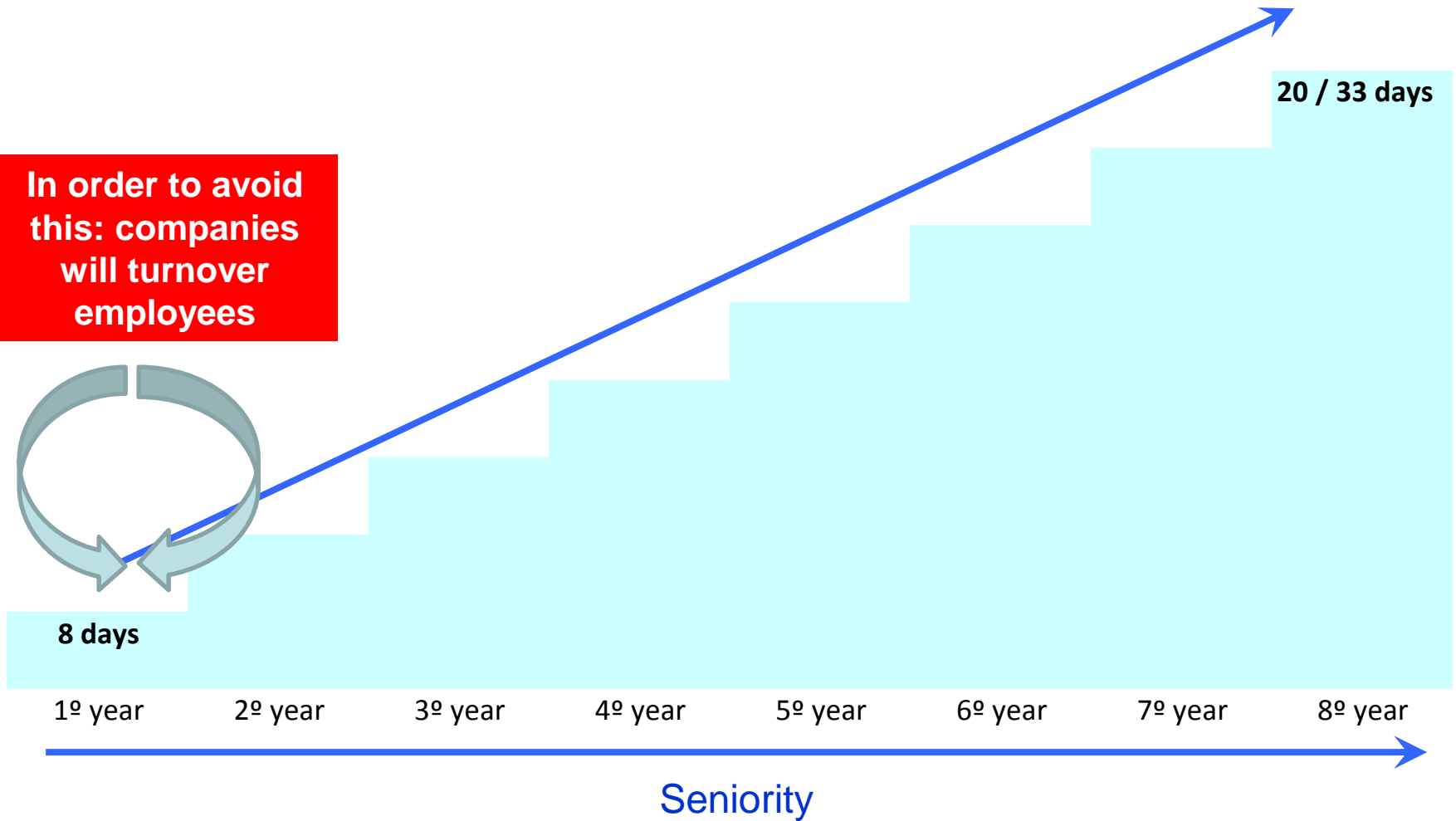
## Solutions

1. Single contract
2. Ciudadanos' proposal
3. Cost sharing system

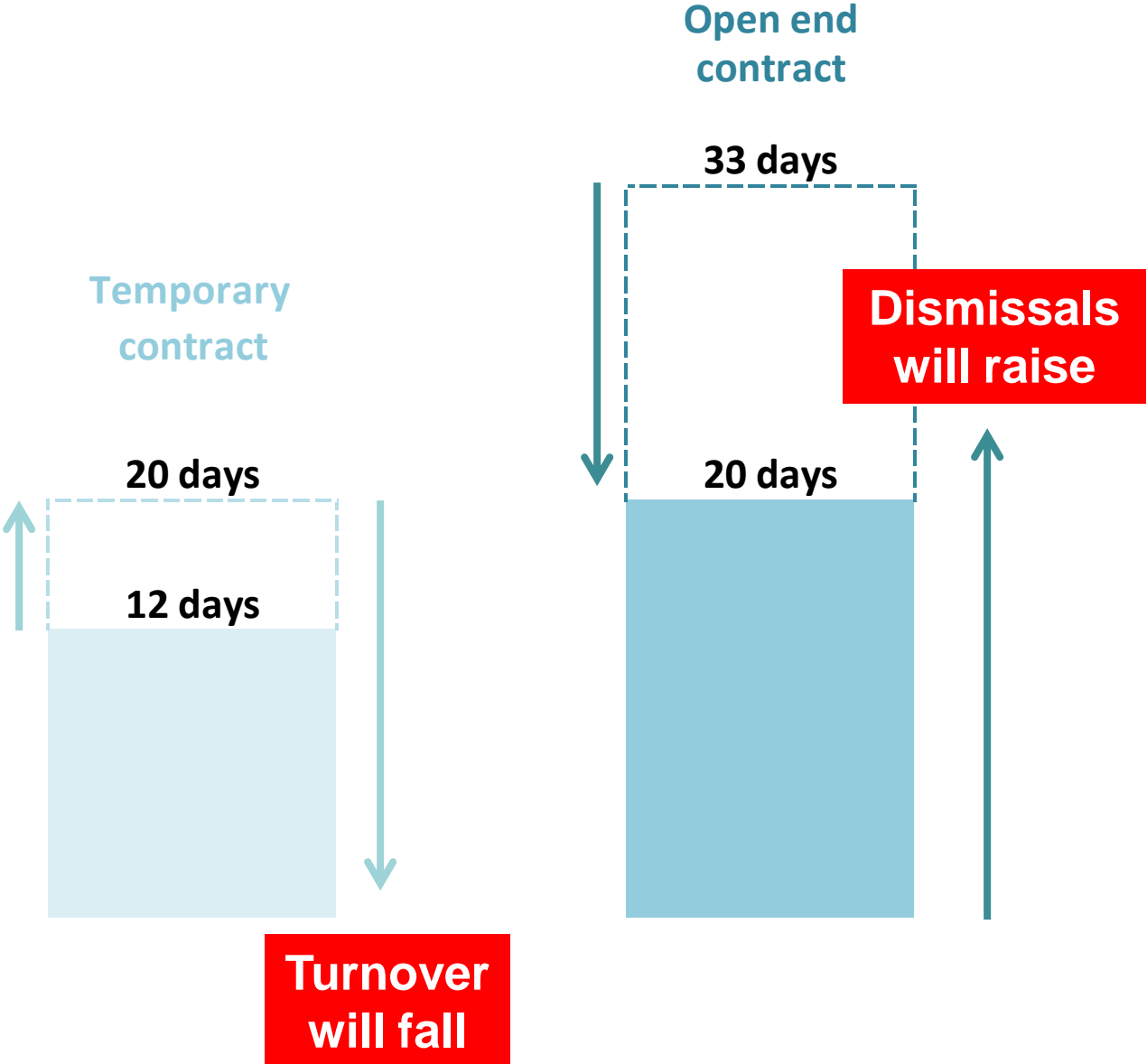
# Single contract

Employees will accumulate at the top of the ladder

In order to avoid this: companies will turnover employees



# Ciudadanos' proposal





## Cost sharing system

**Quantitative** based  
external adjustment



**Price** based  
internal adjustment

### How it works?

- Wages can be cut up to a threshold
- Companies cannot pay dividends and bonuses
- Small companies → Stable Employment Fund
- What temporary contracts remain?

## Cost sharing system

### Advantages

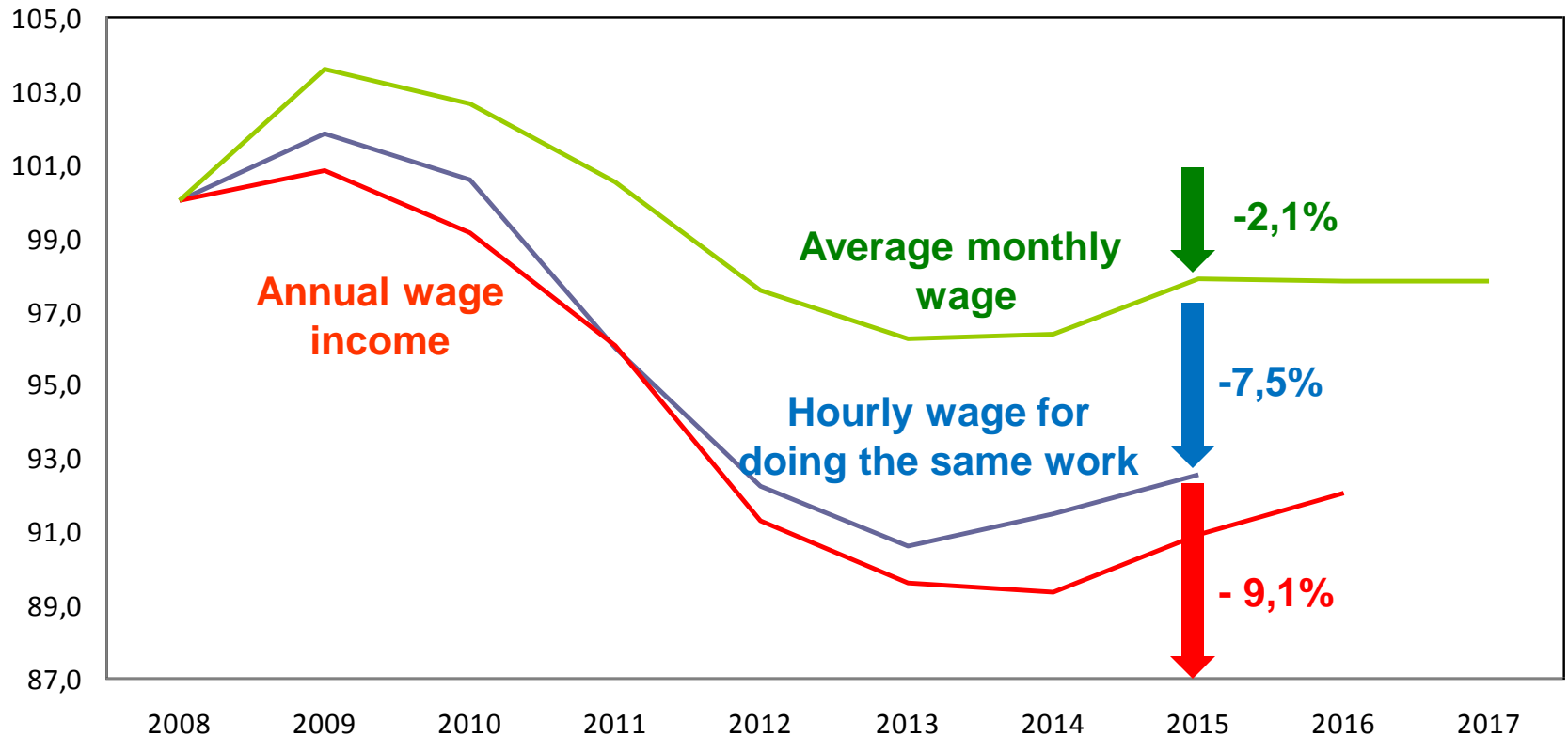
- The cost of adjustment is shared
- ↓ Risk of demise
- ↓ Employment turnover
- Consumption = and ↑ investment
- Equality in improved

### Disadvantages

- Greater negotiation costs
- Lowers elasticity jobs/GDP

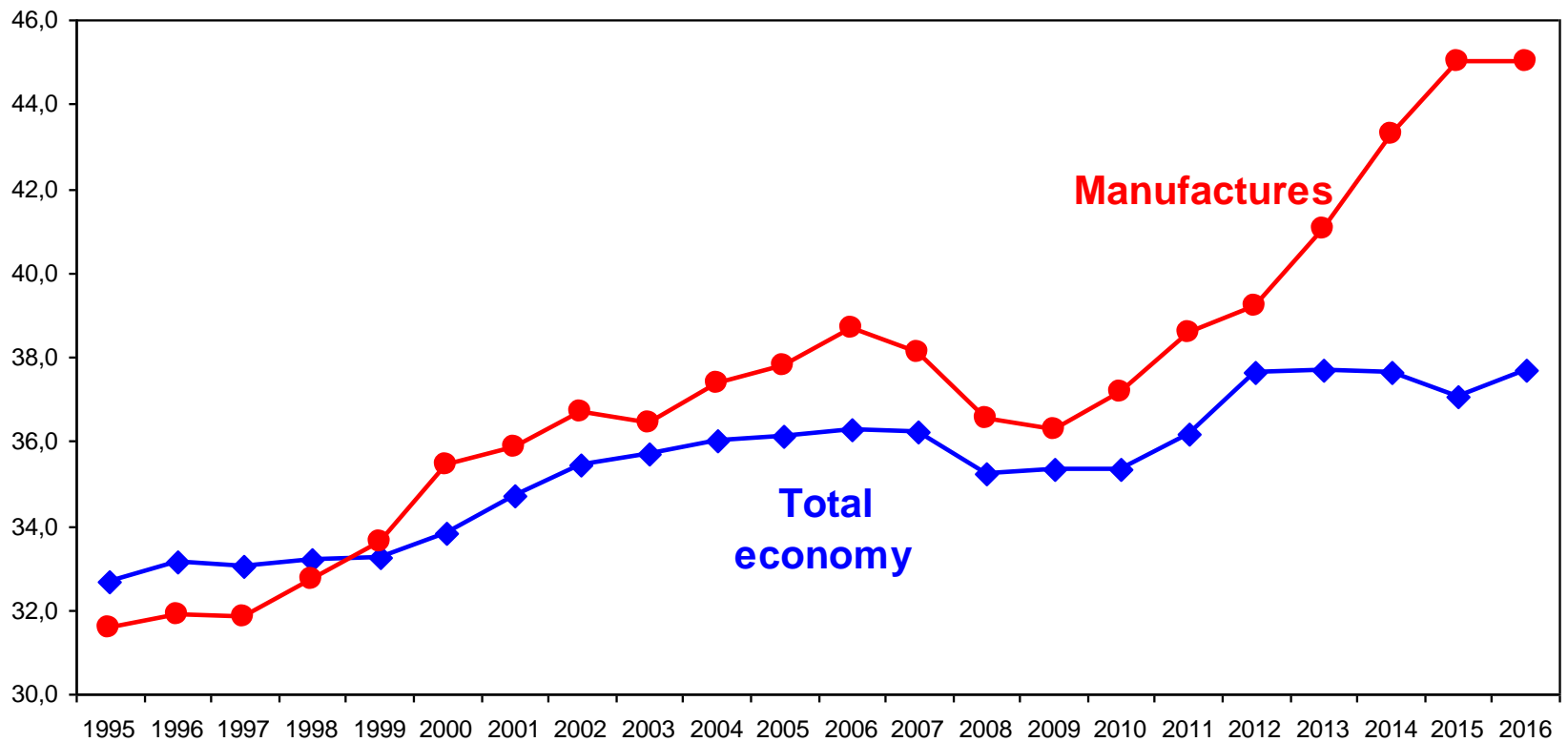
# Important wage devaluation along the recession

Real wage. Index 2008=100



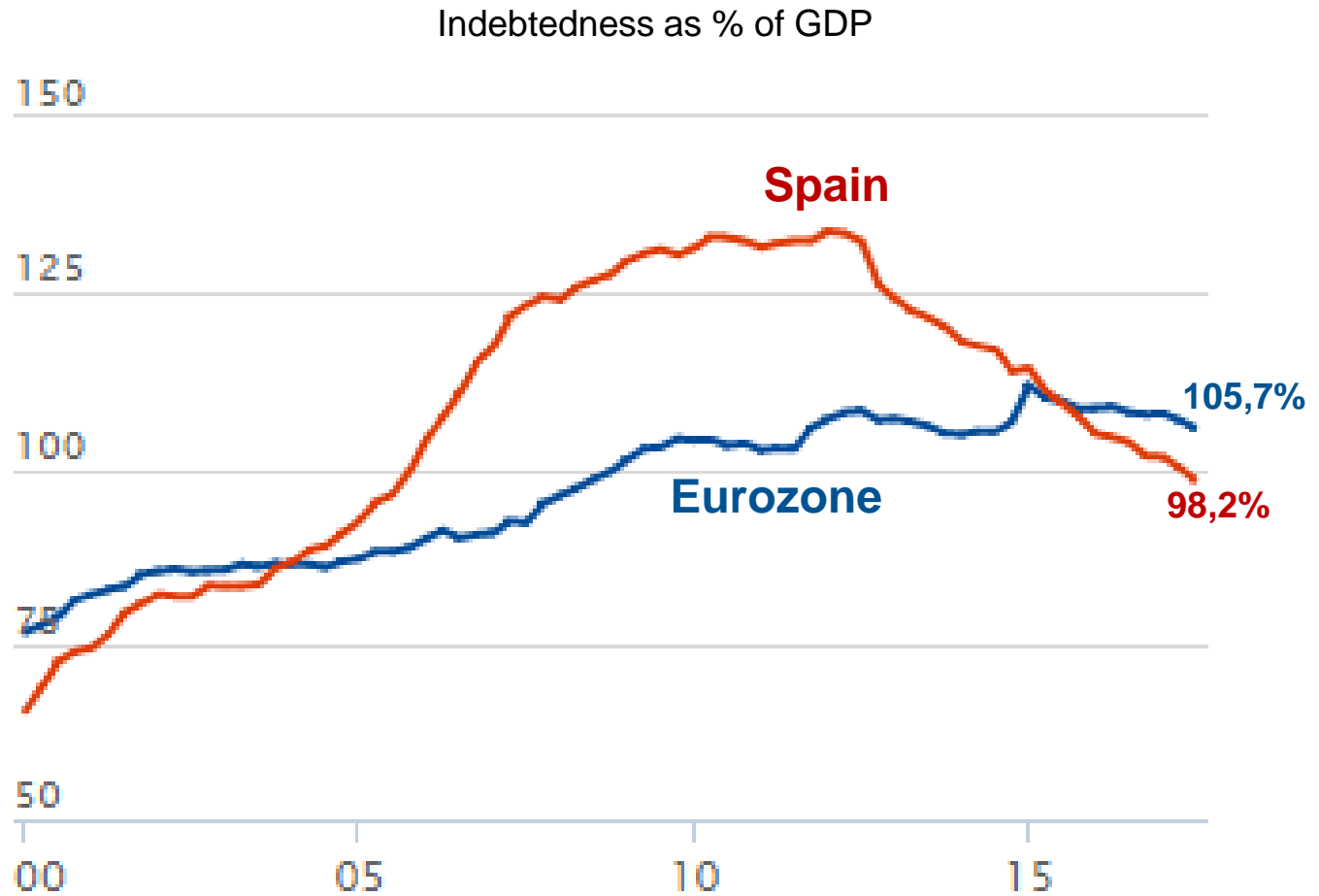
Source: CCOO Economic Department based on IPT and ETCL of INE and AEAT

## Labour reforms have accelerated the increase in business margins per unit produced

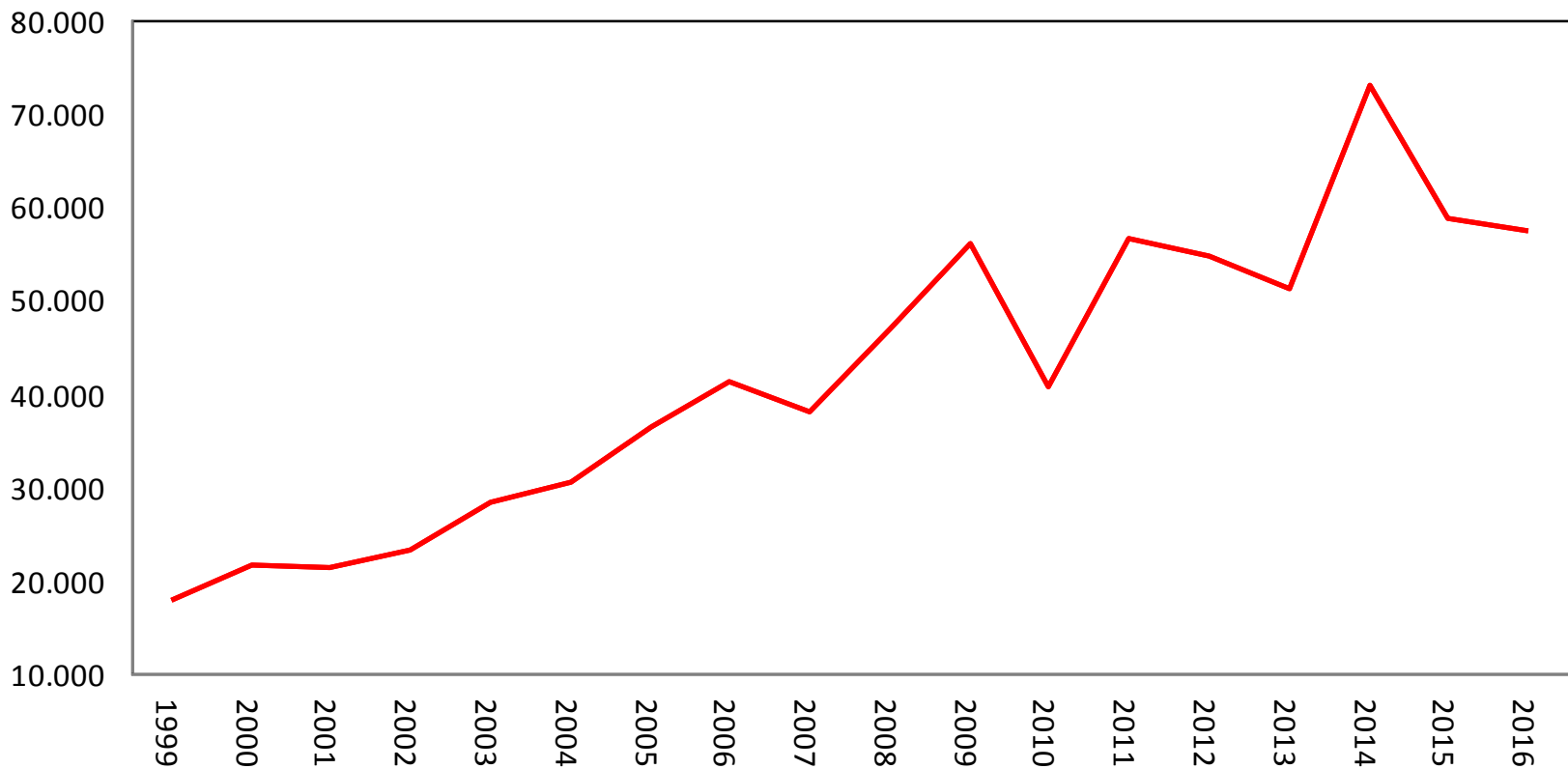


Source: CCOO Economic Department based on National Accounts from INE.

## Strong reduction in non-financial corporations' indebtedness



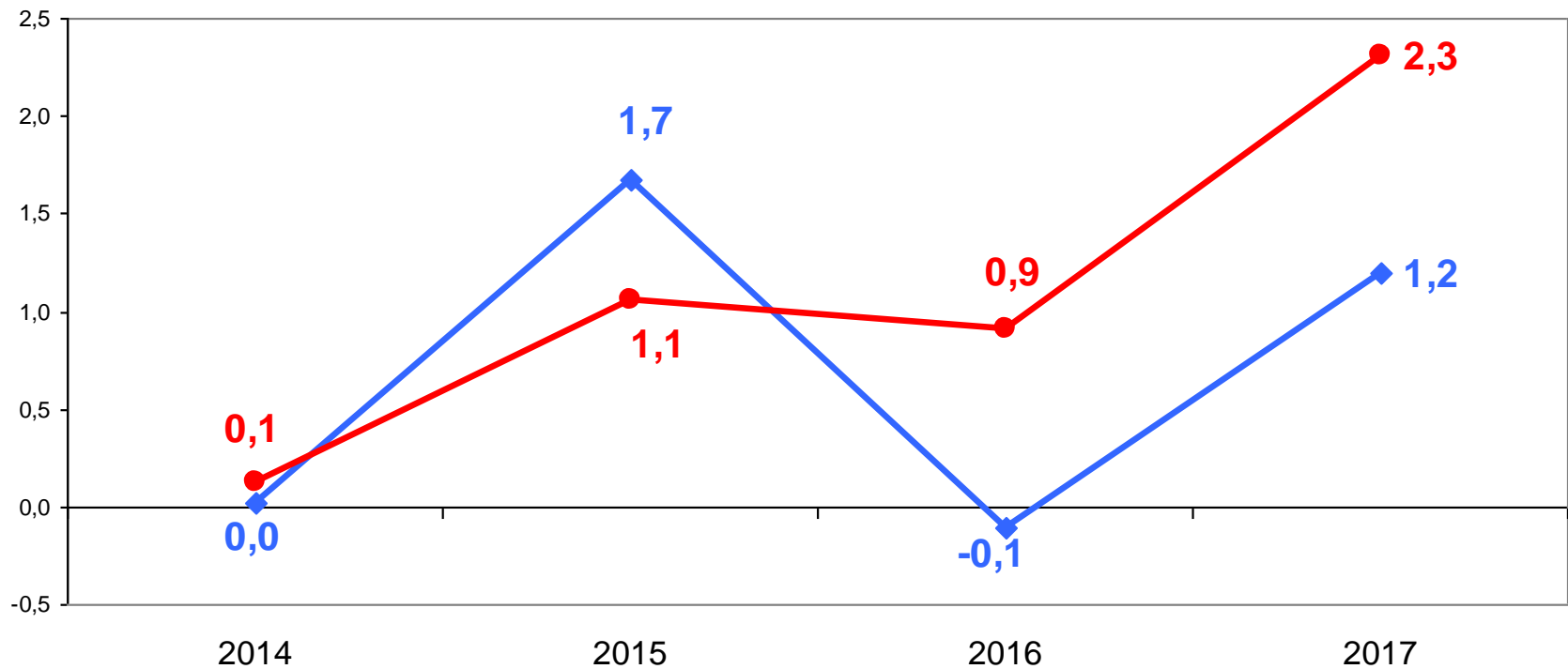
## Profit distributed by non-financial corporations have not stop growing, even during recession



Source: CCOO Economic Department based on National Accounts from **INE**.

## Employee's compensation per hour is evolving below productivity during recovery

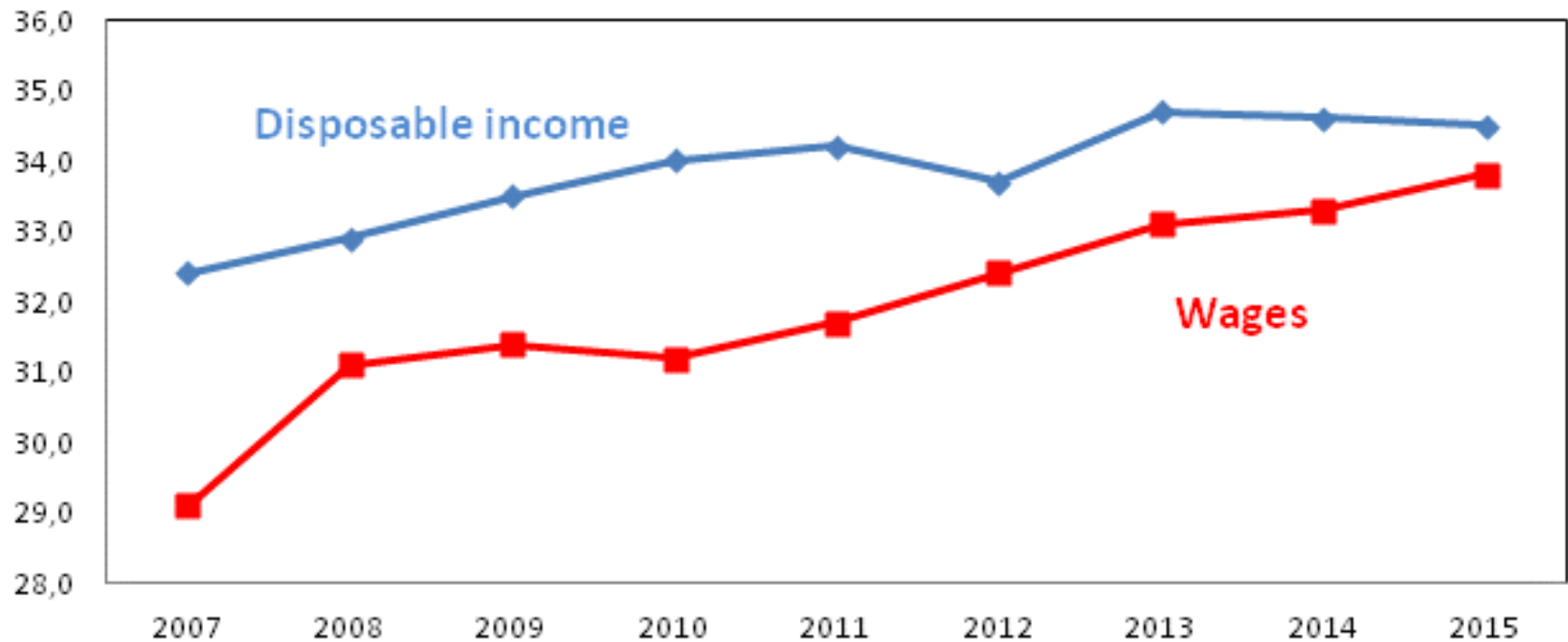
Annual percentage change



Source: CCOO Economic Department based on National Accounts of INE.

## Inequality is slightly reduced with economic recovery but continues to rise in wages

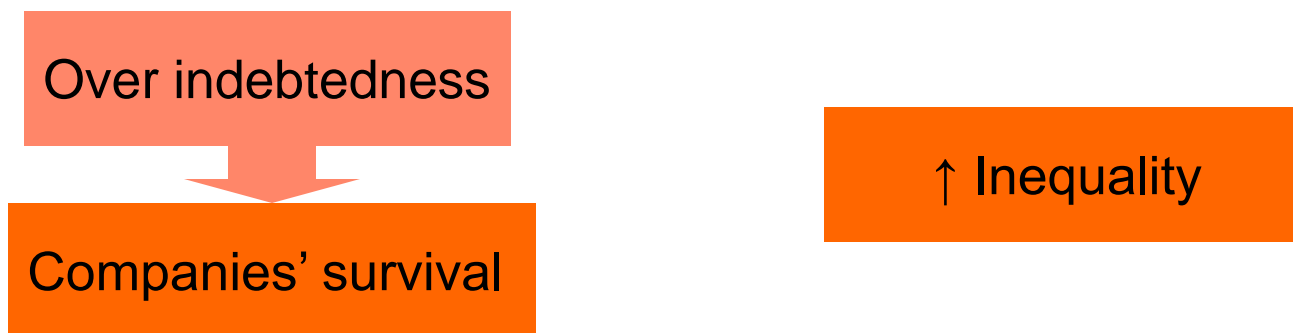
Gini Index



Source: CCOO Economic Department based on Labor Force Survey for wages distribution and Living Conditions Survey for disposable income distribution.



## Labour reforms adopted during recession should be rethought out



1. To allow a fair participation of workers in companies' prosperity
2. To produce a fair distribution of adjustment costs in future economic depressions
3. To end with employment instability